SaskTel

Financial Statements of

SASKATCHEWAN TELECOMMUNICATIONS

December 31, 2005

106-04470/

KPMG LLP
Chartered Accountants
2000 - 1881 Scarth Street
Regina SK S4P 4K9

Telephone (306) 791-1200
Fax (306) 757-4703
Internet www.kpmg.ca

AUDITORS' REPORT

To the Members of the Legislative Assembly, Province of Saskatchewan

We have audited the statement of financial position of Saskatchewan Telecommunications as at December 31, 2005 and the statements of operations, retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2005 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Regina, Canada
February 21, 2006

KPMG LLP, a Canadian limited liability partnership is the Canadian member firm of KPMG International, a Swiss cooperative.

Statement of Operations

For the year ended December 31, (Thousands of dollars)	2005	2004
Operating revenues	**$852,465**	$803,897
Operating Expenses		
Operations	**587,920**	529,014
Depreciation and amortization	**135,961**	131,645
Restructuring charges (Note 3)	**40,806**	38,235
	764,687	698,894
Income from operations	**87,778**	105,003
Other income	**1,082**	1,814
Interest and related costs (Note 4)	**(22,033)**	(22,651)
Net income	**$66,827**	$84,166

See Accompanying Notes

Statement of Retained Earnings

For the year ended December 31, (Thousands of dollars)	2005	2004
Retained earnings, beginning of year	**$225,131**	$261,714
Net income	**66,827**	84,166
	291,958	345,880
Dividends	**60,145**	120,749
Retained earnings, end of year	**$231,813**	$225,131

See Accompanying Notes

Saskatchewan Telecommunications

Statement of Financial Position

As at December 31, (Thousands of dollars)	2005	2004
Assets		
Current assets		
Cash and short-term investments	$ -	$30,789
Accounts receivable	87,406	41,004
Inventories	5,186	5,698
Prepaid expenses	6,817	3,947
	99,409	81,438
Property, plant and equipment (Note 5)	800,188	802,493
Other assets (Note 6)	66,537	66,018
	$966,134	$949,949
Liabilities and Province's equity		
Current liabilities		
Bank indebtedness	$7,603	$8,388
Accounts payable and accrued liabilities	123,150	124,510
Accrued interest	3,954	3,955
Dividend payable	9,404	32,567
Services billed in advance	31,553	26,818
Current portion of long-term debt (Note 7)	34,610	2,272
	210,274	198,510
Deferred revenue	9,137	4,503
Notes payable (Note 8)	30,526	-
Long-term debt (Note 7)	217,189	254,610
	467,126	457,623
Province of Saskatchewan's equity		
Equity advance (Note 9)	267,195	267,195
Retained earnings	231,813	225,131
	499,008	492,326
	$966,134	$949,949

See Accompanying Notes

On behalf of the Board

Robert Watson

R. Stephanson

Randy Stephanson

Statement of Cash Flows

For the year ended December 31, (Thousands of dollars)	2005	2004
Cash provided by (used in):		
Operating activities		
Net income	**$66,827**	$84,166
Items not affecting cash (Note 10)	**178,511**	160,496
Other operating items (Note 11)	**(88,922)**	40,125
	156,416	284,787
Financing activities		
Increase in notes payable to Holdco	**30,526**	-
Repayment of Province of Saskatchewan debt	**(2,124)**	(31,094)
Dividends paid	**(83,308)**	(123,294)
	(54,906)	(154,388)
Investing activities		
Property, plant and equipment expenditures	**(133,436)**	(115,498)
Other assets	**1,922**	1,094
	(131,514)	(114,404)
Increase (decrease) in cash	**(30,004)**	15,995
Cash and cash equivalents, beginning of year	**22,401**	6,406
Cash and cash equivalents, end of year	**$(7,603)**	$22,401
Comprised of:		
Short-term investments	**$ -**	$30,789
Bank indebtedness	**(7,603)**	(8,388)
	$(7,603)	$22,401
Interest Paid	**$24,815**	$27,760

See Accompanying Notes

Notes to Financial Statements

Note 1 – The Corporation

Saskatchewan Telecommunications (the Corporation) markets and supplies a range of voice, data, internet, wireless, text, image and entertainment products, systems and services. The Corporation is a Saskatchewan Provincial Crown corporation operating under the authority of *The Saskatchewan Telecommunications Act* and, as such, the Corporation is not subject to Federal or Provincial income taxes in Canada.

The Canadian Radio-television and Telecommunications Commission (CRTC) regulates the Corporation under the *Telecommunications Act* (Canada).

By virtue of *The Crown Corporations Act, 1993*, the Corporation has been designated as a subsidiary of Crown Investments Corporation of Saskatchewan (CIC). Accordingly, the financial results of the Corporation are included in the financial statements of CIC, a Provincial Crown corporation, through consolidation with Saskatchewan Telecommunications Holding Corporation (Holdco).

Note 2 – Summary of significant accounting policies

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

Cash and short-term investments

Cash and short-term investments include interest bearing investments with Holdco that are due on demand and are stated at cost which approximates market value.

Inventories

Materials, supplies and inventories are recorded at the lower of cost and net realizable value. Cost is determined using an average-cost basis.

Property, plant and equipment

Property, plant and equipment is recorded at cost including materials, services and direct labour.

Depreciation and amortization is computed on the straight-line basis using rates determined by a continuing program of engineering studies for each class of property in service.

Asset	Estimated useful life
Buildings	20 - 35 years
Plant and equipment	2 - 50 years
Office furniture, equipment and leaseholds	4 - 17 years

With respect to property, plant and equipment acquired and constructed or developed over time, the Corporation follows the policy of capitalizing related equipment, construction and installation costs, including direct labour, as plant under construction. These costs are then depreciated and amortized on a basis consistent with the Corporation's depreciation and amortization policy from the date the asset is substantially completed and put into productive use.

Notes to Financial Statements

Note 2 – Summary of significant accounting policies, continued

Impairment of long-lived assets

Long-lived assets, including property, plant and equipment, are amortized over their useful lives. The Corporation reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized on a long-lived asset to be held and used when its carrying value exceeds the total undiscounted cash flows expected from its use and eventual disposal. The amount of loss recorded is determined by deducting the asset's fair value (based on discounted cash flows from its use and disposition) from its carrying value.

Asset retirement obligations

Legal obligations associated with the retirement of property, plant and equipment are initially measured at fair value and are adjusted for any changes resulting from the passage of time and any changes to the timing or amount of the original estimate of undiscounted cash flows. The asset retirement cost is capitalized as part of the related asset and is amortized into earnings over the asset's useful life. No significant retirement obligations exist as at December 31, 2005.

Revenue recognition

Revenues are recognized in the period the services are provided when there is clear proof that an arrangement exists, amounts are determinable and the ability to collect is reasonably assured. Revenues from local telecommunications, data, internet, entertainment and security services are recognized based on access to the Corporation's network and facilities at the rate plans in effect during the period the service is provided. Certain service connection charges and activation fees, along with corresponding direct costs are deferred and recognized over the average expected term of the customer relationship. Revenues from long distance and wireless airtime are recognized based on the usage or rate plans in the period service is provided. Revenues from equipment sales are recognized when the equipment is delivered to and accepted by the customer. Revenues for longer term contracts are recognized based on a percentage of completion. Payments received in advance are recorded as deferred revenue until the product or service is delivered.

Customer solutions may involve the delivery of multiple services and products that occur at different points and over different periods of time. The multiple services are separated into their respective accounting units and consideration is allocated among the accounting units. The relevant revenue recognition policies are applied to each accounting unit.

The CRTC has established a National Subsidy Fund to subsidize Local Exchange Carriers (LECs), like the Corporation, that provide service to residential customers located in high cost service areas (HCSAs). The CRTC has set the rate per line and band for all LECs. The Corporation recognizes the revenue on an annual basis by applying the rate to the number of residential network access lines served during the period in HCSAs.

Notes to Financial Statements

Note 2 – Summary of significant accounting policies, continued

Employee future benefits

The Corporation has: a defined benefit pension plan (a), a defined contribution pension plan (b), a service recognition defined benefit plan (c), and a service recognition defined contribution plan (d).

a) Defined benefit pension plan
The Corporation accrues its obligations under employee benefit plans and the related costs, net of plan assets. The Corporation has adopted the following policies related to the defined benefit plan:

The cost of pension benefits earned by employees is actuarially determined using the projected benefit method prorated on service and management's best estimate of expected plan investment performance, salary escalation and retirement ages of employees.

Pension plan assets are valued at fair value, which is determined using current market values.

Expected return on plan assets is calculated based on a five year weighted average of actuarial gains and losses, expected returns on plan assets, and contributions and benefit payments made in the current year.

Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service period of employees who were active on the day of the amendment but not yet fully eligible to receive benefits (5 years). This represents the period that economic benefits from the amendments are expected to be realized.

The excess of the net actuarial gain (loss) over 10% of the greater of the benefit obligation and the market related value of the plan assets is amortized over the average remaining service life of active employees of the plan. The remaining service life of active employees is calculated as a weighted average of 5.0 years.

When the restructuring of a benefit plan results in both a settlement and a curtailment of obligations, the curtailment is accounted for prior to the settlement.

b) Defined contribution pension plan
Defined contribution plan costs are recognized as employees render services during the year.

c) Service recognition defined benefit plan
The Corporation provides a service recognition defined benefit plan for its employees. The cost of the plan is determined using the projected benefit method prorated on service.

d) Service recognition defined contribution plan (Centennial Plan)
Centennial Plan costs are recognized as employees render services during the year.

Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated at the year-end exchange rates. Revenues and expenses are translated at rates of exchange prevailing on the transaction dates. Translation gains and losses on foreign currency denominated monetary items are taken into income in the current year.

Notes to Financial Statements

Note 2 – Summary of significant accounting policies, continued

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include the carrying amounts of property, plant and equipment and underlying estimations of useful lives of depreciable assets and capitalization of labour and overhead, the carrying amounts of accounts receivable and underlying provision for bad debts and the carrying amounts of deferred pension costs and underlying actuarial assumptions. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

Note 3 – Restructuring charges

During 2005, $40,806,149 (2004 - $38,234,510) was recorded to restructuring charges. The charges relate to phases one and two of a proposed three phase voluntary early retirement program (ERP) with each phase occurring over a two year period. The ERP has been undertaken to reduce operating costs and manage the employee demographic profile in the context of a changing labour market. The first phase began in the fall of 2004 and was completed during 2005. The second phase of the ERP began in 2005 and will be completed in 2007. During 2005, 173 employees (2004 – 185) elected to receive a package that included a cash allowance and immediate pension benefits.

An additional charge of approximately $38 million is expected to be incurred in 2006. These costs are not eligible for recognition at December 31, 2005 and will be expensed as incurred.

The table below provides a summary of the costs recognized and the liability recorded at December 31:

	2005	2004
	(Thousands of dollars)	
Balance in accounts payable and accrued liabilities, beginning of year	**$7,256**	$ -
Restructuring charges	**40,806**	38,235
Less:		
Cash payments	**10,901**	2,567
Special termination benefit costs (Note 13)	**29,666**	28,412
Balance in accounts payable and accrued liabilities, end of year	**$7,495**	$7,256

Notes to Financial Statements

Note 4 – Interest and related costs

	2005	2004
	(Thousands of dollars)	
Interest expense	$24,992	$26,205
Foreign currency translation	12	(1,728)
Other	(13)	(13)
	24,991	24,464
Less sinking fund earnings	2,958	1,813
	$22,033	$22,651

Note 5 – Property, plant and equipment

	Cost	Accumulated deprecation and amortization	Net book value	
			2005	2004
			(Thousands of dollars)	
Buildings	$162,493	$83,743	$78,750	$77,694
Plant and equipment	2,056,437	1,525,997	530,440	561,583
Office furniture, equipment and leaseholds	136,761	65,079	71,682	62,166
Plant under construction	103,177	-	103,177	88,044
Materials and supplies	11,756	-	11,756	8,798
Land	4,383	-	4,383	4,208
	$2,475,007	$1,674,819	$800,188	$802,493

Depreciation and amortization for the year totalled $135,741,668 (2004 - $131,270,422).

Notes to Financial Statements

Note 6 – Other assets

	2005	2004
	(Thousands of dollars)	
Deferred pension costs (Note 13)	$53,743	$55,318
Deferred expenses	6,975	3,376
Other	5,819	7,324
	$66,537	$66,018

Amortization for the year totalled $219,617 (2004 - $374,845).

Note 7 – Long-term debt

	Years to Maturity	Weighted Average Interest Rate (%)	2005	2004
			(Thousands of dollars)	
Province of Saskatchewan				
Canadian dollar issues (a)	1 to 5	8.11	$126,974	$66,974
Canadian dollar issues	6 to 10		-	60,000
Canadian dollar issue	15	10.08	126,600	126,600
Canadian dollar issues	24	5.00	35,000	35,000
			288,574	288,574
Less sinking funds (b)			37,213	32,390
Total Province of Saskatchewan debt			251,361	256,184
Other			438	698
Total long-term debt			251,799	256,882
Less current portion of long-term debt			34,610	2,272
			$217,189	$254,610

(a) Long-term debt totalling $66,974,000 is subject to redemption at the option of the issuer on 30 days notice, as outlined in the terms and conditions.

Notes to Financial Statements

Note 7 – Long-term debt, continued

(b) Under conditions attached to a portion of the long-term debt, the Corporation is required to pay annually into sinking funds, administered by the Province of Saskatchewan, one percent of the debt outstanding.

Sinking fund installments and anticipated long-term debt repayments (net of sinking funds) due over the next five years are as follows:

	(Thousands of dollars)
2006	$34,464
2007	15,813
2008	22,995
2009	2,216
2010	55,641

Note 8 – Notes payable

The balance represents amounts due to Holdco at an interest rate of 3.25%.

Note 9 – Equity advance

The Corporation's equity financing is in the form of equity advances of $250,000,000 (2004 - $250,000,000) from CIC and $17,195,000 (2004 - $17,195,000) from Holdco.

Note 10 – Items not affecting cash

	2005	2004
		(Thousands of dollars)
Depreciation and amortization	$135,961	$131,645
Pension cost - defined benefit plan	9,181	6,404
Special termination benefit costs (Note 13)	29,666	28,412
Service recognition defined benefit program curtailment (Note 13)	7,298	-
Foreign currency translation	12	(1,728)
Sinking fund earnings	(2,958)	(1,813)
Other	(649)	(2,424)
	$178,511	$160,496

Notes to Financial Statements

Note 11 – Other operating items

	2005	2004
		(Thousands of dollars)
Changes in non-cash working capital:		
Accounts receivable	**$(46,402)**	$35,916
Inventories	**512**	(2,490)
Prepaid expenses	**(2,870)**	(302)
Accounts payable and accrued liabilities	**(8,982)**	42,688
Accrued interest	**(1)**	(1,534)
Services billed in advance	**4,735**	2,949
Deferred revenue	**4,634**	4,503
Other assets	**(3,599)**	(3,376)
Contributions to defined benefit pension plan	**(36,949)**	(38,229)
	$(88,922)	$40,125

Note 12 – Financial instruments

Credit risk

The Corporation has a large and diverse customer base that minimizes the concentration of credit risk.

Currency exposure

The Corporation uses a combination of derivative financial instruments to manage foreign exchange risk exposures. The Corporation does not actively trade derivative financial instruments.

Fair value

Fair values approximate amounts at which financial instruments could be exchanged between willing parties based on current markets for instruments with similar characteristics such as risk, principal and remaining maturities. Fair values are estimated using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates that reflect varying degrees of risk. Therefore, due to the use of judgment and future-orientated information, aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

At year end, the carrying value of all financial instruments approximates fair value with the following exceptions stated in thousands of dollars:

	2005		2004	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Equity in sinking funds	**$37,213**	**$38,219**	$32,390	$32,684
Long-term debt, Province of Saskatchewan	**$288,574**	**$383,745**	$288,574	$378,239

Notes to Financial Statements

Note 13 – Employee future benefits

The Corporation has a defined benefit pension plan (a), a defined contribution pension plan (b), a service recognition defined benefit plan (c) and a service recognition defined contribution plan (d). The defined benefit pension plan for certain employees has been closed to new membership since 1977.

a) Defined benefit pension plan

The defined benefit pension plan is registered under *The Pension and Benefit Act, 1992*, Saskatchewan, the *Income Tax Act*, Canada and is regulated by the Saskatchewan Financial Services Commission – Pension Division. The Corporation is responsible for adequately funding the defined benefit pension plan. Contributions are determined by actuarial valuations. The contributions reflect actuarial assumptions about future investment returns, salary projections and future service benefits. A valuation is performed a least every 3 years in accordance with *The Pension and Benefit Act, 1992*, Saskatchewan, to determine the actuarial present value of the accrued pension benefit. The latest valuation is dated December 31, 2003 and was performed as of August 31, 2004.

The defined benefit pension plan provides a full pension at age 65, at age 60 with at least 20 years of service or upon completion of 35 years of service. The pension is calculated to be 2% times the average of the highest three years of pensionable earnings times the number of years of service up to a maximum of 35 years of service. A reduced pension may be opted for if certain age and years of service criteria are met. Pensions are subject to annual indexing with the Consumer Price Index up to a maximum of 2% per year.

For employees that retire before the age of 65 but meet other age plus service requirement either a reduced or unreduced pension may be payable.

The introduction of the ERP resulted in a curtailment to the defined benefit pension plan. The impact of the curtailment was to reduce the accrued benefit obligation by $19,108,433 (2004 - $3,080,952).

Key assumptions used as inputs to the actuarial calculations are:

	2005	2004
Discount rate	5.25%	5.90%
Expected return on plan assets	7.00%	7.00%
Inflation rate	2.50%	1.90%
Expected salary increase	3.00%	1.90%
Post-retirement index (not to exceed 2%)	100% of CPI	100% of CPI

Notes to Financial Statements

Note 13 – Employee benefit plans, continued

Pension plan assets

The table below shows the allocation of pension plan assets at December 31, 2005 and 2004.

Asset category	2005	2004
Equity securities	53.1%	54.9%
Bonds	30.4%	30.9%
Short-term investments (treasury bills, notes and commercial paper)	9.8%	8.6%
Real estate	6.7%	5.6%
	100.0%	100.0%

The table below shows the components of the defined pension plan cost:

	2005	2004 (Thousands of dollars)
Current service cost – defined benefit plan	$(7,839)	$(9,642)
Interest cost	(51,266)	(50,745)
Expected return on pension plan assets	57,170	54,929
Special termination benefit costs	(29,666)	(28,412)
Amortization of net transitional asset	11,651	11,651
Amortization of past service costs	(4,957)	(4,303)
Amortization of actuarial loss	(13,554)	(8,294)
Net pension cost	$(38,461)	$(34,816)

The accrued benefit obligation, plan assets and deferred pension cost tables below show the change in the defined benefit pension plan and the change in the fair value of the plan's assets during the year and the status of the plan as at December 31, 2005 and 2004.

Accrued benefit obligation	2005	2004 (Thousands of dollars)
Accrued benefit obligation, beginning of year	$889,740	$822,203
Current service cost	9,951	12,255
Curtailment gain	(19,108)	(3,081)
Interest cost	51,266	50,746
Benefits paid	(47,974)	(42,413)
Impact of changes due to actuary study	-	3,683
Impact of change in discount rate	104,268	17,935
Special termination benefit costs	29,666	28,412
Accrued benefit obligation, end of year	$1,017,809	$889,740

Notes to Financial Statements

Note 13 – Employee benefit plans, continued

Plan assets	2005	2004 (Thousands of dollars)
Fair value of plan assets, beginning of year	**$806,301**	$724,793
Actual return on plan assets	**111,361**	82,756
Employer contributions	**36,886**	38,552
Employee contributions	**2,113**	2,613
Benefits paid	**(47,974)**	(42,413)
Fair value of plan assets, end of year	**$908,687**	$806,301

Deferred pension costs	2005	2004 (Thousands of dollars)
Funded status – surplus (deficit)	**$(109,122)**	$(83,439)
Unamortized transitional asset	**(38,798)**	(50,448)
Unamortized past service costs	**12,624**	17,581
Unamortized net actuarial losses	**189,039**	171,624
Deferred pension costs	**$53,743**	$55,318

b) Defined contribution pension plan

The defined contribution pension plan requires the Corporation to contribute 6% of employees' pensionable earnings and employees to contribute a minimum of 4% of pensionable earnings. The total cost for the defined contribution plan is equal to the Corporation's required contribution. The Corporation's 2005 pension cost and employer contributions for the Public Employees Pension Plan are $11,736,483 (2004 - $11,230,221).

c) Service recognition defined benefit plan

The service recognition defined benefit program provided a retiring allowance of two days salary per year of service which is payable on retirement. Based on the Collective Agreement between the Corporation and the Communications, Electrical and Paperworkers Union of Canada, ratified April 22, 2005, the service recognition defined benefit program was curtailed effective March 19, 2005. Employees will no longer earn two days pay per year of service, however will continue to earn incremental pay increases for the earned service at March 19, 2005 until retirement. Key assumptions used as inputs to the actuarial calculations are:

	2005	2004
Discount rate	**5.20%**	6.80%
Expected salary increase	**3.00%**	2.80%
Estimated average remaining employee service life	**14.1 years**	15.7 years

Notes to Financial Statements

Note 13 – Employee benefit plans, continued

Current year benefit cost	2005	2004 (Thousands of dollars)
Defined benefit service cost	$2,608	$2,912
Impact of curtailment	7,298	-
Defined benefit service cost	$9,906	$2,912

Accrued benefit obligation	2005	2004 (Thousands of dollars)
Accrued benefit liability	$20,897	$13,771

d) Service recognition defined contribution plan (Centennial Plan)

The Centennial Plan was implemented on March 20, 2005. The plan requires the Corporation to contribute six days pay, based on permanent employees' current regular rate of pay, to a defined contribution plan or through a cash payment to employees. Total cost of the plan for 2005 was $4,990,340.

Note 14 – Related party transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to CIC by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Other transactions in the normal course of operations are recorded at the exchange amount which is the amount of consideration established and agreed to by the related parties. These transactions and amounts outstanding at year-end are as follows:

	2005	2004 (Thousands of dollars)
Operating revenues	$66,369	$68,993
Other income	-	90
Operating expenses	66,051	62,605
Accounts receivable	9,519	10,812
Accounts payable and accrued liabilities	26,160	32,494
Property, plant and equipment expenditures	4,822	656
Other assets	2,915	3,074

Notes to Financial Statements

Note 14 – Related party transactions, continued

The Corporation participates in customer solutions which may involve delivery of the Corporation's services in conjunction with those of related parties. Participation in these customer solutions is done at no cost to the Corporation as agreed to by the related parties.

In addition, the Corporation pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all its taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

A director of the Corporation also served, for a portion of the year, as a director of a corporation from which the Corporation purchased $1,766,211 (2004 - $1,496,698) of property, plant and equipment and items recorded in operating expense of $487,750 (2004 – $330,969).

Other amounts and transactions due to (from) related parties and the terms of settlement are described separately in these financial statements and notes thereto.

Note 15 – Commitments and contingencies

Commitments

The future minimum payments under operating leases and contractual obligations for services in each of the next five years are as follows:

	(Thousands of dollars)
2006	$22,926
2007	22,232
2008	21,706
2009	14,789
2010	14,068

The above payments include $18,850,000 for leases with related parties.

Contingencies

On August 9, 2004, a proceeding under the *Class Actions Act* (Saskatchewan) was brought against several Canadian wireless and cellular service providers, including the Corporation. The proceeding involves allegations by wireless customers of breach of contract, misrepresentation, negligence, collusion, and breach of statutory obligations concerning system administration fees. The plaintiffs seek unquantified damages from the defendant wireless communications service providers. The Corporation believes that it has strong defenses to the allegations. It is not currently known whether the proceeding will be certified as a class action and the outcome of this matter is not determinable at this time.

In the normal course of operations, the Corporation becomes involved in various claims and litigation. While the final outcome with respect to claims and litigation pending at December 31, 2005 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Corporation's financial position or results of operations.

Notes to Financial Statements

Note 15 – Commitments and contingencies, continued

Deferral Account

The deferral account mechanism is a component of the CRTC price cap framework. It is used to mitigate potential adverse effects on competition in the local market which could be caused by mandated rate reductions. The funds recorded in this deferral account are first used to offset revenue reductions caused by policy changes affecting the rates for competitor services. Any remaining amounts could be used to fund initiatives such as service improvements or customer rebates.

The CRTC issued Telecom Decision CRTC 2006-9 on February 16, 2006 that provided additional clarity as to the disposition of amounts accrued in deferral accounts. Accumulated balances are to be used to fund: broadband expansion; programs to improve accessibility to telecommunications services for the disabled; and customer rebates. The Corporation and other Incumbent Local Exchange Carriers are directed to submit proposals to meet these requirements by June 30, 2006. In addition, the CRTC has ordered the Corporation to implement rate reductions by June 1, 2006 that will eliminate future accumulations in the account.

The Corporation estimates the accumulated commitment to the deferral account to be $1.0 million as of December 31, 2005. A liability, should one arise, will be charged to income from operations or property, plant and equipment, as appropriate.

Note 16 – Rate regulation

The Corporation's telecommunications and broadcast services are regulated by the CRTC, however, the CRTC regulates the rates for only those telecommunications services where the CRTC has not found that the service is subject to sufficient competition to rely on market forces to protect the interests of customers. Rates that the Corporation may charge for rate regulated services must receive CRTC approval prior to being implemented and may not be set below the cost of the service, calculated according to CRTC costing rules. In addition, the CRTC has implemented a price cap framework which limits the Corporation's flexibility in the pricing of some rate regulated services and, each year, may force a rate reduction for these services.

The CRTC also regulates the rates for all services that are designed for use by competitors. The CRTC requires rates for these services to be based on service costs plus approved mark-ups. These rates are subject to potential annual changes based on the price cap framework.

Approximately 38% of the Corporation's operating revenues are currently subject to CRTC rate regulation.

Rate regulation does not result in the Corporation selecting accounting policies that would differ from generally accepted accounting principles, however, the CRTC's authority to establish interim rates and set final rates retroactively has resulted in the Corporation recording the following items in the financial statements:

Notes to Financial Statements

Note 16 – Rate regulation, continued

Direct Connect and Access Tandem Services
Direct Connect and Access Tandem are inter-connection services sold to long distance competitors. CRTC approved interim rates were established for these services in 2003 (Direct Connect) and 2002 (Access Tandem), however, the final rate determinations may be retroactive to June 1, 2002. The Corporation's accounts payable include $5.1 million that represents the expected outcome of these decisions, $0.4 million of which was recorded in 2005. These liabilities will be settled upon receipt of final rate determinations. The current CRTC work-plan indicates that this will occur during the first quarter of 2006.

Competitor Digital Network (CDN) Services
On February 3, 2005, the CRTC released Telecom Decision CRTC 2005-6, *Competitor Digital Network Services*, which finalized the terms and conditions under which the Corporation is to provide digital network services to other telecommunications carriers. The CRTC determined that the Corporation's interim competitor digital network access rates are to be replaced retroactively to June 1, 2002, by rates equal to the Corporation's retail digital network access rates, which are significantly higher than the interim rates. As a result of this decision, revenues of $12.1 million have been recognized in 2005 that reflect retroactive application of final rates.

Note 17 – Comparative figures

Certain of the 2004 figures have been reclassified to conform to the current year's presentation.